

**THE NORTHWEST SEAPORT ALLIANCE**  
**MEMORANDUM**

**MANAGING MEMBERS**  
**ACTION ITEM**

<b>Item No.</b>	<u>5B</u>
<b>Date of Meeting</b>	<u>June 6, 2017</u>

**DATE:** May 26, 2017

**TO:** Managing Members

**FROM:** John Wolfe, CEO  
**Sponsor:** Bari Bookout, Chief Commercial Officer  
**Manager:** John Christensen, Sr. Manager, Business Development

**SUBJECT:** West Hylebos Log Dock Lease with Merrill & Ring

**A. ACTIONS REQUESTED**

Request authorization from the Managing Members for the Chief Executive Officer to enter into the following agreements with Merrill & Ring:

- (1) A two-year lease for the West Hylebos Log Yard and Debarker
- (2) A two-Year service agreement covering wharfage, service and facilities fee

**B. SYNOPSIS**

A new two year lease will allow continued use of the West Hylebos Log Facility for bulk log exports. Bulk log exports are an important part of the cargo diversification strategy of The Northwest Seaport Alliance. The proposed agreement offers continued maritime water dependent use of a port asset, and generates direct maritime, forestry and trucking jobs in the local economy. The agreement will generate revenue that covers the cost of repairs to the fenders and structure of the dock, extending the life of the asset.

**C. BACKGROUND**

12 years ago, the Port of Tacoma purchased the West Hylebos Log Yard, reactivating it for log use in 2009. The facility has been in continuous use for log exports since then. During this time, investment in an award winning stormwater treatment system for the yard was made, and repairs to the dock and yard paving surfaces were completed.

Bulk logs from Tacoma are exported to China for use in the construction market. These logs are milled into lumber that is used to construct the forms for pouring concrete. The majority of houses and buildings in China are constructed from concrete rather than lumber. Logs moving over the West Hylebos Log Dock are sourced from the basin of forests within a defined radius of the port. Logs outside of a certain mileage distance move over closer ports like Port Angeles, Olympia and Grays Harbor. The type of logs best suited for bulk shipment are the

softer white wood species like Hemlock and Douglas Fir. There is domestic competition for Douglas Fir, and increasingly for Hemlock. After an all-time high export volume in 2013, log volumes have been impacted by the strong US dollar that gives other countries a price advantage, competition for the same log supply from the booming US housing market, and a weakened but steady construction market in China. The recent announcement of a US import duty for Canadian lumber may in the short term increase the demand for domestic lumber and increase the price of logs, but Canada is not expected to flood the export market with logs due to the way their forestry industry is structured.

The previous tenant chose not to renew their lease of the West Hylebos Log Facility upon its expiration in September 2016. The Northwest Seaport Alliance then entered into a month to month agreement with a new customer, Merrill & Ring, who was interested in establishing their own export operation in Tacoma. Merrill & Ring is a privately held company which owns timberland on the North Olympic Peninsula, British Columbia and New Zealand. The company's background in the PNW dates back to the late 1800's. The company also has a trading division which buys and markets timber for export. Given the consistent demand from China, Merrill & Ring believes they can be competitive long-term and are now interested in a longer term agreement with the NWSA.

#### **D. KEY TERMS**

- Two year term, with one two year extension option at sole discretion of NWSA.
- Ground lease for 18.4 acres, including buildings and debarker. Maintenance and repair of the debarker at the expense of Lessee.
- Variable Concession Fee based on 1000 Scribner Foot Board Measure with a minimum annual guarantee of 35M FBM per year.
- Service Agreement with fixed monthly fee for Wharfage and S&F.
- NWSA will make repairs to fender system and structure of the dock, not to exceed \$740,000.

#### **E. FINANCIAL IMPLICATIONS**

- This agreement will produce positive cash flow over the two year term.
- Investment in repairs to the dock structure are capped at \$740,000 during the term of the lease.
- This project has a payback period of 0.9 years and will generate \$1M cash based on minimum volume of 35M FBM.
- Investment in repairs meets the NWSA minimum threshold of return.
- Additionally, the 2017 repair of the dock will allow for continued non-preferential use for barge layberth opportunities, generating incremental revenue.
- Further investments in repairs will only be made if the lease is extended and the extended lease terms justify the additional investment.

**F. ENVIRONMENTAL IMPACTS/REVIEW**

Stormwater runoff from logs generate a high degree of turbidity, reducing available oxygen for fish. The Port of Tacoma invested in a proprietary stormwater runoff system for the property that uses natural filtration media and plants to filter toxins. It has won awards for its design and function. Merrill & Ring, and their operator Holbrook, are working with NWSA environmental staff to maintain best management practices. As a condition of the lease, the stormwater permit will be transferred to Merrill & Ring. Ongoing costs of operation and maintenance are the responsibility of the tenant, with the exception of maintenance and repair of the pump system and maintenance and replacement of part of the drainage medium.

**G. ECONOMIC IMPACT**

The bulk log activity contributes to cargo diversification identified in The Northwest Seaport Alliance strategic business plan. Each log ship averages approximately 1900-2000 longshore hours. Additional direct local jobs from stevedoring, trucking, forestry, and terminal operations are also generated.

**H. ATTACHMENTS TO THIS REQUEST**

- Computer slide presentation: Two Year Lease for Merrill & Ring
- Diagram: Exhibit A, aerial view of West Hylebos Log dock

**I. PREVIOUS ACTIONS OR BRIEFINGS**

None